Board Action Bulletin

Prepared by the Office of Public and Congressional Affairs

NCUA BOARD MEETING RESULTS FOR AUGUST 29, 2011

2011 Stabilization Fund Assessment Set at 25 BPs; Future Costs Projected Lower

NCUA Guaranteed Notes Oversight Plan Established; Proposed Corporate Rule to Relieve Regulatory Burden

ALEXANDRIA, Va. (Aug. 29, 2011) – The National Credit Union Administration (NCUA) Board convened a special open meeting at the agency's headquarters here today and unanimously approved three items:

- The 2011 Temporary Corporate Credit Union Stabilization Fund Assessment to raise $1.96 billion to pay principal and interest on maturing notes guaranteed by the Stabilization Fund;
- The creation of an NCUA Guaranteed Notes (NGN) Securities Management and Oversight Committee to monitor the maintenance of the initiative; and
- Proposed technical amendments to the corporate credit union rule, relieving regulatory burden and clarifying certain provisions.

The Board also received a briefing on newly revised lower loss projections for the Stabilization Fund, and anticipated future assessments on the credit union industry.

2011 Assessments Set; Future Stabilization Fund Outlook Improves with New Quarterly Model

2011 Stabilization Fund Assessment—The Board set the 2011 Stabilization Fund assessment at 25 basis points for a total of $1.96 billion. The Board based the 2011 assessment of 25 basis points on projected fixed, near-term net cash flow needs with the expectation that future assessments would be considerably lower. Additionally, there is no anticipated 2011 Share Insurance Fund premium.

Funds generated from the 2011 assessment, along with borrowed funds from the U.S. Treasury, will pay the principal and interest on maturing Medium Term Notes issued by corporate credit unions and guaranteed by the Stabilization Fund, and the guaranteed notes issued to the bridge corporate credit unions.

As required by law, the Board took into consideration the potential negative impact of this assessment on credit union earnings by annualizing June 30 Call Report figures.

NCUA will distribute invoices with the 2011 assessment due by Sept. 27. Credit unions should expense the assessment in September and report the full expense on their Sept. 30 Call Reports.

New Quarterly Modeling Improves Outlook—Recent economic volatility poses challenges in what was already a difficult forecasting environment. Attempting to project the performance of the approximately 4 million loans that comprise the securities underlying the NGNs remains difficult. The performance of these loans ultimately feeds into the corporate loss estimates.

Through a competitive bid process, NCUA engaged Blackrock to conduct quarterly modeling of losses and cash flows on the securitized assets in the NGNs. Blackrock's new estimates forecast a wider range than previous projections given the ongoing economic volatility.

Based on Blackrock's June 30 model projections, actual performance of the legacy assets, and updated projections in monetizing the other assets in the asset management estates, the cumulative total projected Stabilization Fund costs for the corporate resolution program range from $5.2 billion to $9.5 billion. As reflected in the table below, by deducting the $3.3 billion already assessed in 2009 and 2010, and subtracting the 2011 assessment, the projected remaining assessments over the life of the Stabilization Fund are $1.9 billion to $6.2 billion.

Stabilization Fund	Previous Estimate (in Billions)	Current Estimate (in Billions)
Range of Total Projected Assessments	$8.3 – $10.5	$5.2 – $9.5
Less 2009 and 2010 Assessments	-$1.3	-$1.3
Net Range of Post 2010 Projected Assessments	$7.0 – $9.2	$3.9 – $8.2
Less 2011 Assessment	-$2.0	-$2.0
Net Range of Post 2011 Projected Assessments	$5.0 – $7.2	$1.9 – $6.2

These projections do not include any potential recoveries from settlements or litigation, which would reduce the cumulative total assessment costs.

2012 Outlook—Through NCUA's strong management of Stabilization Fund assets, near-term projected cash needs prior to 2013 have fallen from $2.94 billion to $2.7 billion. After the 2011 assessment pays the majority of this obligation, the projected requirement for 2012 cash needs will be around 9 basis points of June 30 insured shares, or approximately $700 million.

Board Creates Oversight Plan to Maintain NCUA Guaranteed Notes

To ensure the achievement of the objectives of the NGN initiative and sound management of the Stabilization Fund, the Board approved the creation of the NGN Securities Management and Oversight Committee and associated staff positions. In approving the delegation, the Board charged the group with ensuring that NCUA fulfills its ongoing responsibilities of the corporate resolution process in a manner that promotes transparency, efficiency and accountability.

The NGNs require long-term monitoring, managing and reporting on very complex transactions for at least the next 10 years. Creation of the NGN Securities Management and Oversight Committee addresses the need for long-term, streamlined management of the NGN initiative's daily activities.

Comprised of the directors of the Asset Management and Assistance Center, the Office of Examination and Insurance, and the Office of the Chief Financial Officer, the group will initially be chaired by Larry Fazio. The Temporary Corporate Credit Union Stabilization Fund will fund costs associated with staffing and operating the committee, including consultants.

Technical Changes to Corporate Rule Relieve Regulatory Burden

The Board approved a proposed rule with eight technical amendments to the regulation governing corporate credit unions (Part 704) in an effort to clarify the Board's intent related to certain provisions, relieve regulatory burden where warranted, and facilitate access to liquidity.

Previously, the Board decided that a daily calculation of net risk-weighted assets was unnecessary and over burdensome. The first technical amendment would remove a reference to this calculation unintentionally left in during the prior amendment.

Additionally, the Board proposed excluding Central Liquidity Facility (CLF) stock subscriptions from the definition of net assets because the credit risk of carrying this asset is negligible. Excluding stock subscriptions from the definition encourages continued CLF participation by corporate credit unions and thus facilitates a systemic liquidity benefit to natural person credit unions.

To reduce regulatory burden, the Board also determined that violations of the weighted average life of a corporate credit union's assets should not be subject to capital category reclassification. The proposed rule therefore requires the preparation of investment action plans for such violations.

Within the proposed rule, the Board further changed the phrase "the sum of its retained earnings and paid-in capital" to simply "core capital," defined elsewhere in the regulation. Additionally, the proposal changes the date instruction on Model Form D in Appendix A. These proposed technical changes align with prior amendments adopted in 2010.

Regarding the requirements for investment action plans, the proposed rule clarifies what events could trigger preparing such a plan. Finally, the Board corrected the title of the executive compensation section to harmonize with earlier changes to the text.

The proposed rule only applies to corporate credit unions. The Board seeks comments within 30 days of publication in the *Federal Register.*

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